

Decline of ‘Successful Social Democracy’ in Japan  
---What has Koizumi Revolution Changed?

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# **"Decline of 'successful social democracy' in Japan ---What has Koizumi revolution changed?"**

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## **Introduction**

In the general election on September 11, 2005, the Liberal Democratic Party had unprecedented landslide. Prime Minister Koizumi proposed privatization of the postal service as the only issue in the campaign. He ousted dissenters who voted against the privatization bill in the Lower House from the party. The LDP became monolithic in terms of policy for the first time. Koizumi's strategy gained great success in the urban areas while the party did not have clear victory in rural districts such as Hokkaido and Okinawa. This result may show that the LDP is changing into a modernized party with neo-liberal policy and urban supporters. It seems to me that it is too early to conclude that Koizumi inaugurated a new regime. However, regime of 1955 has been apparently collapsing. In this essay, I would like to look back upon the post-war political system and try to explain why Koizumi became so popular in his attempt to crash the LDP. Koizumi has been changing the framework of post-war politics in both domestic and external realms. Focus will be limited to domestic area in this essay.

## **1 Collapse of Post-war Welfare Regime**

### **1) Characterizing the Socio-Economic System**

First of all, I would like to characterize the post-war socio-economic policy, which Koizumi has been to reform. The postwar socio-economic system formed in Japan by the LDP and the bureaucracy is often called 'successful social-democracy,' especially by economists and business leaders keen to point out the limits and defects of the Japanese system from a neo-liberal point of view.

It seems odd to label Japan as a social democratic nation, as it has been ruled almost continually by the LDP, a conservative party that is largely dependant on business for funding and votes. There are some basic features of the postwar Japanese economy that looks similar to socialist or social democratic regime. These are: (1) that it developed at a rapid pace even after two oil shocks in 1970s; (2) that it is subject to much government intervention in the form of regulations, public investment etc; and (3) that it created a society with a relatively small individual or regional economic disparities—a society, in effect, in which everyone felt that they belonged to the middle class. Almost all media discussions of economic policy in Japan are predicated on these

shared perceptions.

It is usually the second point that receives the strongest emphasis, as commentators stress the role of Japan's regulatory regime in creating an industrial order that ensures the survival of the weakest, thus minimizing the role of competition. They note as well the tendency to concentrate public investment in poorer rural prefectures, a policy reflecting the importance of the farm sector in the LDP support base. These two factors are thought to have contributed greatly to the leveling of Japanese society.

We can gain a better grasp of the distinctive features of the Japanese socioeconomic system by analyzing the government's mode of involvement in the society and the economy. A good way to do this is to plot a position relative to two axes—one representing the spectrum from discretionary to universal policy, the other the spectrum from individual to socialized risk.

The discretionary-universal policy axis measures the fairness and uniformity of the government's policies pertaining to industrial regulation and benefit distribution. By the same token, it measures the degree of discretion exercised by the government agencies responsible for implementing those policies.

As mentioned above, the Japanese bureaucracy has enjoyed relatively large discretionary power in policy implementation. In terms of the distribution of benefits, a universal policy is one that aims for uniformity in the implementation or expansion of such comprehensive systems as long-term health insurance, pensions etc, or by increasing the budget for systems like public education. In respect to the regulation of industry, a universal policy applies the rules strictly and uniformly to ensure fair competition and consumer safety.

Discretionary policies, on the other hand, confer benefits selectively on certain groups at the discretion of the policymakers, such as subsidies or tax breaks for specific regions or industries. Discretionary regulatory policies, meanwhile, are policies that call for ad hoc decisions whenever an issue arises between the regulated and the regulators, instead of applying the same rules to each situation; the classic example is the 'administrative guidance' so common in Japan. Here the bureaucracy wields tremendous discretion in deciding whether to apply the official rules, how strictly to apply them, or even whether to invent ad hoc regulations for the situation at hand.

The second axis, socialized versus individual risk, gauges the degree to which society as a whole shares and lightens an individual's responsibility with respect to possible loss, injury, disasters, and so forth. In the other direction, it gauges the degree to which the principles of individual responsibility and free competition prevail.

Market purists place the greatest emphasis on individual responsibility and thus

individual risk, insisting that each person assume the risk of losing his or her job, going bankrupt, falling ill, and so forth. Policies associated with this orientation include tax cuts, deregulation, and other measures that call on each individual to take on the competition and accept responsibility for the outcome. In opposition to this thinking, there are those who insist that individuals may find themselves sick or unemployed through no fault of their own and that society as a whole should assume the risk and come to the aid of people who happen to meet such misfortune. They also believe that regulations governing the behavior of individuals and corporations are necessary to prevent environmental destruction and ensure consumer safety. With respect to the distribution of risk, policies associated with this orientation emphasize the use of tax revenues or social insurance premiums to pay for things like universal pensions and health care. Where regulation is concerned, policies reflecting this school of thought strive to minimize risk to the consumer or environment through a regulatory regime, even if it means higher prices or fees than would result from free competition in a deregulated environment.

Using both axes, we can categorize policies according to the scheme shown in Figure 1. This process will aid us as we explore the reasons why Japan's socioeconomic system has been termed social-democratic.

The first reason why the Japanese system looks like a quasi-social-democracy is that the system has functioned to socialize risk through public-works projects in rural prefectures and through a regulated, uncompetitive business environment, as exemplified by the finance industry's 'convoy system.' As table 1 show, Japan's outlay for social programs is relatively low as a percentage of tax and social insurance premium, while its outlay for public capital formation relative to GDP is three times that seen in the Western industrial nations. This reflects the government's generosity toward the rural prefectures through public works, which have helped create jobs in those regions. In addition, by curbing competition through its regulatory policies, the government has coddled such uncompetitive industries as agriculture and distribution, making them lucrative. The government has indirectly maintained a minimum living standard through public-works projects and regulations that allow companies to operate without regard for profitability or efficiency. This is what has led some commentators to describe the system as social-democratic.

Figure 1. Antagonism of Policy Ideas and the Constellation of Political Forces

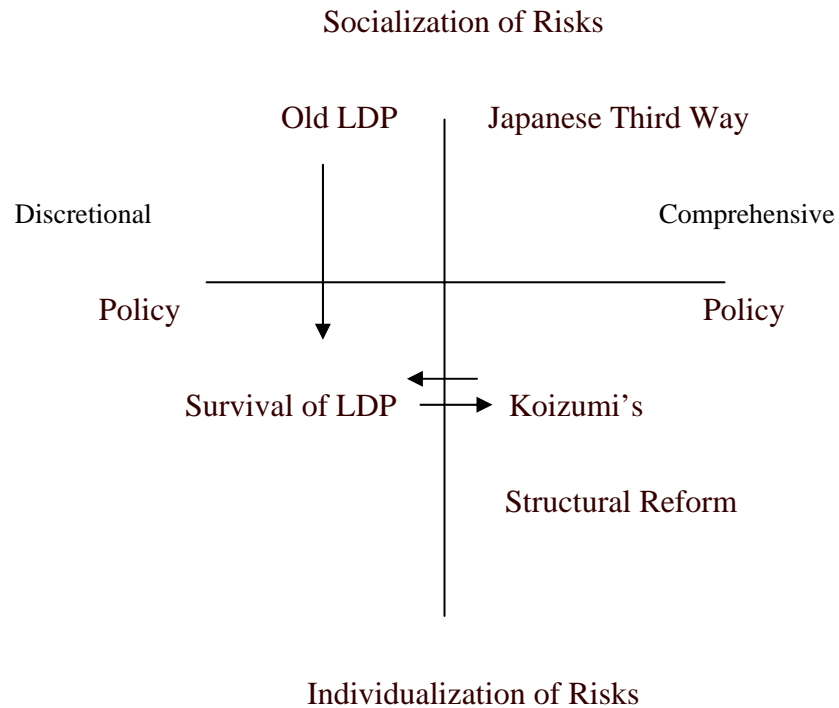


Table 1 Social Welfare Contribution and Benefit (US \$, per capita)

	Income	Tax and Social	Social Security	B/A
		Insurance(A)	Benefit(B)	(%)
Japan	26919	9825	4092	41.6
US	21351	7793	4142	53.2
UK	14444	6673	3929	58.9
Germany	20448	11492	6830	59.4
France	18668	11638	7038	60.5
Sweden	17453	12287	9320	75.9

Source: Cabinet Office of Japan, Yearbook of Social Security Statistics, 1997

The second basis for the label ‘social-democracy’ is the tremendous power wielded by the state bureaucracy by virtue of its discretion in the implementation of government policy. It is especially true of the ministries of agriculture and construction that had huge amount of subsidy budget. Bureaucracy in charge could allocate subsidy

to rural communities or industry associations at their discretion. Thus, politicians representing these constituents rushed for subsidy and pork barrel politics flourished in the world of discretion.

In short, the LDP has constructed a strong safety-net beneath the weaker elements of the economy—be they individuals, companies or prefectures—by socializing risk with subsidies and through such regulatory practices as the convoy system. At the same time, it has distributed profits at its own discretion through patronage and bid rigging. The discretion world was not transparent at all, therefore corruption scandals took place frequently.

## 2) Metamorphose of the LDP

The pitfalls of such a politico-economic system became painfully apparent in the 1990s with the advance of globalization. One problem is the strain on government finances. Since the collapse of the bubble economy of the 1980s, stimulus measures centered on public works helped prevent serious unemployment problems in the rural prefectures, but as a result, Japan has accumulated a national debt of almost ¥700 trillion (\$6 trillion or 5 trillion euros), the largest of any industrial nation. This puts the entire economy at risk. The second problem is that the competition-curbing regulation of industries has served to buoy up prices, creating a ‘high-cost society.’ The economic inefficiency resulting from this state of affairs can be regarded as the upshot of pseudo-social-democracy in Japan. The third problem is that the lack of transparency in this type of system breeds corruption, as many Japanese came to realize in the 1990s through a series of financial scandals involving bureaucrats as well as politicians. According to the neo-liberal critics of ‘Japanese-style social-democracy,’ the problem was that the big corporations and wealthy individuals that drive the economy were forced to pay the price for the redistribution of assets in the form of high taxes, costs, and fees, and the bureaucrats and politicians used that money wastefully, resulting in inefficiency and corruption. They say Japanese style social democracy has been spoiling the pseudo weak, such as farmers and small construction companies in rural areas. Urban workers come to be frustrated with corruption and inefficiency.

In the midst of all this, Prime Minister Koizumi made his entrance, calling for ‘structural reform.’ If we can take the prime minister’s advisors at their word, the Koizumi administration’s structural reforms are aimed at instituting universal policies based on clear criteria, such as efficiency and profitability, and eliminating intervention by bureaucrats and politicians. This is the argument behind Koizumi’s drive to privatize Japan’s quasi-governmental organizations. The administration and its advisors also

stress policies that will provide incentives for more individual and corporate risk taking in a competitive environment. Koizumi also calls for more individual responsibility in such areas of risk as healthcare and pensions. The reform of the health-care system is designed to shift more of the cost to patients; together with recent proposals for tax reform, this is all in line with the administration's emphasis on individual risk. The principle of individual responsibility is also being applied to the disposal of nonperforming assets; creditors are calling in their loans to small businesses, and bankruptcies are mounting.

At the same time, Koizumi did not live up to the idea of small government or rule of market. He applied privatization scheme to such areas as express highway and government loan bank. However, his privatization was far from perfect, and there remained loopholes. Under the banner of small government, bureaucrats and politicians found sanctuary where they kept their vested interest intact. Even in the final year of the Koizumi administration, huddling scandals (*dango*) broke out one after another. The prosecutor office charged illegal practices in bid and procurement in various government agencies. It is true that the Koizumi administration has not been serious about eradicating corrupted relation between bureaucracy and companies.

The Japanese people are fed up with privileges that high-ranking bureaucrats have enjoyed. Therefore, it is quite natural that they support Koizumi's outward initiative for slashing inefficient and ineffective public sectors. They enjoy Manichaean political spectacle over structural reform although they cannot understand what the real issues are. Koizumi is bold and outspoken when he attacks politicians and bureaucrats who have vested interest. It is no wonder average citizens are fascinated with his image as a challenger to the ancient regime.

However, the LDP's line of using Koizumi—who ostensibly sails under the flag of rejecting the LDP—to maintain its grip on power, contains a decisive contradiction. Hypothetically, if Koizumi were to smash the LDP as he promised, then obviously the LDP would literally no longer exist as a party. Conversely, should the old sections of the LDP be preserved, even if only in words, then the nation would be thrown into depths of despair, and voters would turn to other parties because of their dislike of the LDP. The ballot in the past elections in 2003 Lower House and 2004 Upper House plainly showed the disillusionment towards Koizumi.

In these elections, the LDP followed the dual strategy of having Koizumi draw in non-affiliated votes on the one hand, while acquiring block votes by having the bureaucrat old-boy network, supported by industry groups, appeal for the preservation of existing vested interests. In the Upper House election in 2001, in the midst of a

phenomenal Koizumi boom, few voters took stock of this contradiction. However, the nation became able to see past the double personality of the LDP. The bloc of nonaligned votes abandoned Koizumi on the one hand, while the party's regional support-base centered on the construction industry and industry groups declined as a consequence of policies based on the nonfeasance of deregulation and retrenchments in public enterprises. This crisis of the LDP was not an acute reaction to Koizumi's verbal gaffes. It could no longer go on camouflaging the problem, as it became manifest.

This contradiction culminated at the battle over privatization of postal service, Koizumi's pet project, in 2005. The government submitted the bill for privatization to the Diet in 2005 ordinary session. Although many LDP members revolted, the Lower House passed the bill with narrow margin in July. The Upper House killed the bill because over 20 LDP members revolted. The attitude of these non-obedient members is a willingness to support the poster-boy Koizumi so long as they can recapture the old ways in terms of personnel and policies. They thought rejection of the privatization bill would be strong weapon to deprive Koizumi of his power. However, they underestimated Koizumi's determination for privatization. Then Koizumi did not resign as the Prime Minister but dissolved the Lower House and called for the general election or national referendum on privatization. The party banished the dissenters and nominated fresh candidates from business, civil service and local politics. People thought Koizumi bravely cut off the old side of the LDP. His popularity soared because he successfully emphasized the negative image of the old LDP. Especially, urban voters and young generation overwhelmingly supported Koizumi's LDP. At this point, one can say the LDP has changed from catch-all party into a party with neo-liberal ideology and urban voters. It is true that there still remain many old politicians in the party. But politicians who are quick to seize their opportunities have already realized that if the LDP returns to factional in-fighting at this stage of the game, and that if the same tired old factional bosses are brought in to replace Koizumi, then the nation will become utterly disgusted with the LDP.

## **2 Neo-Liberal Revolution in Japan**

### **1) Risk society in Japan**

Now I would like to look at the result of Koizumi's structural reform and consider why he has enjoyed unprecedented popularity. When we try to characterize socio-economic condition brought about by the structural reform, notion of risk is useful. In Japan, social scientists become more and more interested in risk, and there appear many books on such broad issues as crimes, natural disaster, unemployment, education,



pension and so on. The biggest reason for this interest is the fact that base for daily lives such as permanent jobs, stable communities and education have been collapsing. In addition, Japanese archipelago was often attacked by natural disaster in the last year, which made people aware of risk. As table 2 show, lives for ordinary people are becoming harder under the Koizumi cabinet. They are now confronting the hard fact that their lives are fragile. Those who already have big risk try to avoid other risk. For instance, young people who do not have stable job tend to avoid marriage or having a child. That is why the birth rate has been declining constantly in Japan, which makes the society less sustainable. These risks cannot be covered by individual effort. In this sense, measures for risk management are the most important issue in Japanese politics.

Table 2. Social Indexes in Japan since 2000

Item	2000	2002	2004
Average Household Income (1,000 yen/year)	7,210	6,830	6,600
Average Household Consumption (1,000 yen/month)	31.7	30.6	30.2
Average Worker Income (1,000 yen/year)	7,690	7,480	7,210
Average Worker Debt (1,000 yen/year)	5,790	6,070	6,050
No. of Unemployed (thousand)	3200	3590	3500
Unemployment Rate (%)	4.7	5.4	5.3
No. of Corporate Bankruptcies	18,769	19,807	16,255
No. of Individual Bankruptcies	145,207	223,570	250,983
No. of Juvenile Workers without a Permanent Job (thousand)	3840	4170	4500
No. of Suicides	30,957	32,143	34,427
No. of Homeless People	20,451	24,090	25,296
No. of People on Public Assistance(thousand)	1,072.2	1,242.7	1,344.3
No. of Workers with a Permanent Job (thousand)	3695	3489	3444
Birthrate	1.36	1.32	1.29
Crime (thousand)	2,443	2,853	2,790
Reported Cases of Domestic Violence	1,096	1,528	1,574
Reported Cases of Child Abuse	18,804	24,254	26,569

We can find parallel between the United States and Japan regarding the structure of risk. Prime Minister Koizumi is following his ally, Bush in handling risk. What 911 is to American people, North Korean threat is to Japanese. The abduction incidents and missile issue developed hostility toward North Korea in Japan. The

Japanese government decided a new mid-term defense plan, in which North Korea was designated a threat and China a potential threat. Japan begins to leave the restraint imposed by Article 9 of the Constitution, and take more active role in military cooperation with the United States. In domestic society, news media emphasize loss of law and order and form public opinion that human rights should be restricted for the sake of public safety. The government has been making several laws to give the police more power to intervene into civil society.

In contrast with such positive policy toward risk of war and crimes, the government is indifferent to risk in socio-economic lives. For nearly five years, the Koizumi government has been pushing a phenomenon known as risk generalization. In all aspects of life—from employment to medical care, to pension, to the education of children—uncertainty is on the rise, and people feel great apprehension. A broad spectrum of people, including the middle class which has heretofore enjoyed a stable lifestyle, harbor a variety of risks now, such as aged parents suddenly needing nursing care or children who are confined due to illness. In fact, the increase in risk—be it due to a decline of regular employment, an increase in the number of retirees, or a rise in the number of suicides—is more than clear.

Although we can't go so far as to say that the Koizumi government has deliberately increased risk, the “small government” line based in neo-liberalism seems unmistakably to have promoted its expansion. Curtailment of local subsidies and public construction funding has raised the employment risk in local areas. This problem is closely related to the change in the LDP initiated by Koizumi. Politicians representing rural communities used to pursue egalitarian policy for the weak in countryside, such as farmers and shopkeepers. However, this type of politicians are ousted from or suppressed in the party. The postponement of institutional reforms in the pension and nursing care systems has enhanced the risks for retirees. If free competition and cost reductions for private enterprise go too far, security on the railway lines may be neglected, resulting in a major accident. The problem of asbestos teaches us that there are areas in which the government must firmly regulate the activities of private firms to protect its citizens' lives. Then defective building scandal broke out. A number of condominium buildings were constructed based on falsified structural strength report and sold to public. This means that many people have lost their asset at once. This sort of issue has enhanced the risk to society as a whole. New type of risk does not fit to jurisdiction of traditional bureaucracy. In the trend toward small government, bureaucracy does not have enough incentive to cope with new issues in risk society.

If in fact it is evident that everyone will face the same risk, then an appropriate

response would be the spread of solidarity as all cooperate in the face of a common risk. We jointly pay taxes and contribute social insurance fees; and we bestow great powers on our government to supervise the activities of businesses. It is natural to imagine that in so doing we are building a more secure social environment. Also, the idea that risk be shared by society as a whole does not presuppose a society in which the powerful pursue profit to their heart's content; rather, it is linked to a society that places a certain weight on equality and fairness.

The government, however, is moving in precisely the opposite direction. The consequence of the small government line of argument is that people are exposed to ever greater risk. If privatized postal savings banks seek profit, they would invest heavily, "taking a risk" including the aged who lack concern or knowledge about economics. Increasing the individual burden for medical expenses on the aged will certainly encourage individuals to purchase medical insurance. People who are prepared to take risks are free to live by "high risk, high return." However, the society that the Koizumi structural reforms target will force high risk on those who do not wish to live a life full of risk.

Equality is a relic of the past, we are now told, and the words winners (*kachigumi*) and losers (*makegumi*) have become our daily vocabulary. For example, the cost of higher education, including entrance examination preparation, is becoming enormous. In order to take the new examination to attend law school requires huge expense. In other words, at the root of small government and *laissez-faire*, equality of opportunity necessarily becomes irrelevant.

For example, over nine thousand people commit suicide because of economic reason every year in Japan. However, no administrative ministry cares about it. The national unemployment rate has been over 5% since 2001, with a more serious unemployment crisis in rural areas like Hokkaido and Okinawa. The young generation has serious difficulties job hunting. Slashing the public sector means reductions in public services such as education and medical service. Increase of patients' payment in health insurance was first decided in Koizumi's structural reform. The government got approved a new pension bill by the Diet in June 2004 that will increase the burden of contributions and decrease the benefits in the public pension. The Ministry of Finance and Liberal Democratic Party start to mention coming increase of consumption tax.

## 2) Why do disadvantageous people support ruthless policy by Koizumi?

Then we encounter a big question: why do poor or weak people support Koizumi who is apparently carrying out poisonous policy for these people?

My answer to this puzzle is as follows. The first reason is Koizumi's political tactics. The socialization of risk has often led to vested interests. Closed policy communities composed of politicians, bureaucrats, and interest groups have benefited from this policy. Koizumi successfully connects the idea of the socialization of risk with the negative image of selfish bureaucrats and corrupt politicians. People appear to accept the idea of small government as a tool to clean up the political world. Koizumi is very good at presenting a political spectacle in which he deals the death blow to the corrupt bad guys.

The second reason is misunderstanding about welfare in Japan. Traditionally, welfare was thought to be mercy to the weak and was truly exceptional in postwar Japan. During the era of high economic growth, Japanese society was young and vital and enjoyed high social mobility. These fortunate conditions made welfare a gift to a small minority. What is happening now is that more and more people are becoming weak and at the same time turning against the other underdog amidst fierce competition. Instead of establishing a reliable welfare regime based on popular contributions, people resent the beneficiaries of risk-socialization policy. Urban dwellers complain about the misuse of public money in rural development, and workers in companies criticize protection for farmers and self-employed people. Although everyone comes at some point to realize his/her vulnerability, a sense of solidarity is not shared yet among the Japanese people.

In the recent general elections, the populace opted with a sigh of despair for neo-liberalism and the Koizumi reform line, although it has brought increased risk and inequality. This cannot be explained simply as a consequence of Koizumi's media strategy or by the argument that the people, with the illusion of themselves as winners conjured by Koizumi's magic. Middle-aged salaried men surely understand that, if they are just setting out in business for themselves, they can't become multi-millionaires. It is not that equality and a sense of justice have disappeared from Japanese society. Rather, a warped egalitarianism and a distorted feeling of righteousness are inundating Japanese society and the urban middle class and those who earn even less—whom we might call the reserve army of losers—support Koizumi enthusiastically.

From a macro perspective, aside from a handful of winners, everyone is being exposed to the same risk. Yet, it cannot be denied that subtle differences exist. In the benefit allocation system put forward by the LDP to date, rural villages, people in construction, and the autonomous bodies of depopulated areas, among others, have been especially protected. Subsidies, public works projects, and local grants-in-aid, among others, have provided shelters against risk. From the perspective of urbanites, who largely bear the cost of funding such shelters, there is unfairness and inequality

surrounding the political concern that their risk alone is undeservedly high. At the same time, civil servants are a group of people who have guaranteed status and face no exceptional risk whatsoever. This, too, reflects a large inequality when seen from the view of salaried men and people doing irregular labor, men and women who have made their way through the past ten years of restructuring after the bubble burst. Although they have no feeling of shame looking at Roppongi Hills, the very symbol of conspicuous consumption in housing, they are deeply angered by the public housing nearby. In this situation antipathy for such petty inequality conceals a great inequality that accompanies the global economy.

Leftwing scholars like myself argue that the public sector must work for equality. City dwellers contribute both taxes and insurance premiums, and the public sector should provide equitable welfare services generally, irrespective of differences in the respective earnings and localities of those urbanites. This construction of equality is common knowledge in political science and public finance. This model could not take shape without urbanites having trust in the public sector. At present this trust is lacking, and there is a widespread feeling that the public sector itself is the source of inequality. There is the expectation that the creation of small government, the root of the slogan “from the government to the people,” or the creation of a situation in which everyone is exposed equally to great risk, will bring about equality among the “non-winners.”

A certain sense of justice with respect to the politics of rights and interests, heretofore the forte of the LDP, has been the motive force behind the eagerly sought idea of small government. Criticism of political corruption and useless public works projects has permeated the populace, and a widespread distrust has emerged based on the belief that rural builders and farming families have used political connections to seize the lion’s share of profits. The expectation is rife that big government has become entwined with special interests, which a selfish minority has pursued, whereas with the construction of small government true public interest transcending special interests will be realized.

Privatization of the postal administration has been tailored to serve as the symbol of “equality” and “justice” in these senses. The opposing view that, were it privatized, post offices in sparsely populated areas would cease to exist, has evoked scarcely any sympathy. Perhaps urban dwellers imagine that specially designated post offices, a source of rights and interests, will follow the laws of efficiency and that weeding out abides with the interests of the majority. It is not that egalitarianism and a sense of justice have disappeared, but they have taken a distorted form. In recent elections, I would argue, this distorted sense of justice and egalitarianism ultimately has

been mobilized with stunning success, using the symbol of small government, through Prime Minister Koizumi's popularity.

Distinctive of the debate in the recent general elections was the simple formulaic opposition between "reform and resistance" and "private and governmental." Of course, the former in each case represented the just side and the latter the evil. By participating in the attacks on everything dubbed evil, people were able to satisfy their sense of righteousness. If this sort of political debate escalates, however, wither Japanese politics?

Such dualistic oppositions as between "urban and rural" and "younger generation and the aged" are becoming fixtures, and the latter in each case who support themselves through redistributions may be shunned as good-for-nothing, vested-interest groups. The political technique of gathering support by inciting a twisted egalitarianism among people exposed to risk, not the management of risk itself, is an invitation to fascism. In this sense Japanese politics is facing a huge crisis

### 3) Prospect of two party system

To break through such a crisis, opposition parties must understand clearly their own loss of position. More than anything else, there is a need for firm resistance to the Koizumi reforms. Let me offer some thoughts on the tasks before the Democratic Party, the major party now in opposition. The Democratic Party was in an utter depression as a result of the elections, but on reflection the fact that the LDP has now shown that it will be following a neo-liberal line means that an enormous chance has presented itself for the opposition party. Because it has chosen to stand upright with a backbone of neo-liberalism, toppling it has actually become possible.

We must start from the recognition that, if the Democratic Party were to give serious thought to taking upon itself one wing of two major political parties, then there would be space available to the left of the LDP. By "left" I am referring to those who stress equality and redistribution more than does the LDP. Or, to put it another way, the ideal of burdening the public sector with a specific role to supervise jointly shared risk—not giving in to a situation in which individuals are exposed to risk—is an ideal of the left. Thus, the first step for the reconstruction of an opposition party is to forge ideals different from those of the LDP.

Responding to an Asahi Shinbun interviewer's question, Nakagawa Hidenao, chairperson of Policy Deliberation Council of the LDP, addressed himself to the Democratic Party in saying that two major parties, which shared the basic values of small government and alliance with the United States, would be competing for reforms. Nakagawa's statement, which brings to mind Francis Fukuyama's "end of history,"

renders meaningless the vocation of politics, and by sealing up the populace's hopes in political possibilities, his aim appears to be the continual perpetuation of LDP power. The Democratic Party must not be ensnared in this trap. Hopping on the same neo-liberal bandwagon as the LDP and competing and bidding up reform to show which side is more radical in numerical objectives would constitute effective abdication of its role as an opposition party.

In the area of policy, the Democratic Party needs to make clear a course of supervising risk in society as a whole in response to the generalization of risk. However, continuation of the method of spreading past risk throughout society by such things as propping up certain locales with public works projects or industrial protection of fleets of transport ships most certainly cannot win national support. The populace is justifiably dissatisfied with the business methods of the public sector with all its corruption and inefficiency. The two principal reasons for failures in the public sector are, I believe, the structure of centralized power and the administration of discretion.

The structure of centralized power is the main cause of inefficiency born of a mismatch between supply and demand in policy. While there was administrative reorganization in the latter half of the 1990s, seen at the level of the ministerial bureau, the policy supply system has been characterized by durability, one might even say inertia. For example, in the sixty years since the end of World War Two, there has been a sharp decline in the rural population, but the organization and budget of the Ministry of Agriculture, Forestry and Fisheries has never been accordingly reduced. Although demand has largely vanished with changes in society and economy, policy continues in desultory fashion. We now have a situation in which they call for reduction of acreage under cultivation, while creating agricultural land through drainage. Also, supply in the areas of capital and facilities has in no way caught up with the new requirements for nursing care for an ageing population. There are now long waits to enter nursing facilities, and salaries for home-helpers remain miserable. Thus, it is not that there is a need to make government smaller, but the true task for reform needs rationalization ("scrap-and-build") and liquidation of the supply-demand mismatch.

The administration of discretion is the fundamental reason behind corruption. Corruption cannot arise in policy services and the allocation of benefits where rules and standards are clear in such areas as the allocation of official pensions and local subsidies, for policies would be applied automatically on the basis of objective rules. Japanese bureaucratic organization, however, embraces numerous discretionary policies, such as spot location of subsidies and special approvals. There are no rules in the allocation of benefits and the coordination of interest in such policies, for they are controlled by the



concerns of those in charge of respective policy areas who have the power and the sources of wealth. And, the entire process remains murky. Thus, as soon as politicians intrude, we find the rapid spread of politics by mediation and intermediaries.

To restore the trust of the populace in a plan for the socialization of risk, there must first be devised policies to rectify petty inequality, as noted above. It would be most welcome if the labor unions of civil servants independently launched a movement to firmly establish workplace regulations. This is not, however, the essential issue. The two points of the structure of centralized power and the administration of discretion remain the essence of reform. To these ends, the local decentralization of power is a strategically important task. By first decentralizing power, we can reduce the distance separating urbanites and the arena of policy formation, and we can make the demands of urbanites reflected more accurately in policy. The local decentralization of power can thus serve as a decisive measure in rectifying the supply-demand mismatch.

Local decentralization of power is also effective in eliminating the administration of discretion. The distribution of subsidies is the major example of this administration of discretion. If local power decentralization were to be pursued in the financial arena, then the insidious political competition, which appears to be making inroads into the discretion of bureaucrats, would disappear. Protecting the community with the closest governmental body, the local municipality, and supervising risk jointly—this is the vision of a society that can resist neo-liberalism.

There are some factors that will influence the next party system. One is whether the Democratic Party can take such center-left line vis-à-vis the LDP. The Democratic Party is still amalgam of diversified politicians, and it is unpredictable who will lead the party with what policy ideas. More important factor is who will succeed to Koizumi. The LDP is to elect a new president in this September. If the party chooses to continue Koizumi's line, two party system based on right-left axis will come into being eventually. If the party chooses modify its policy line from neo-liberal to compassionate conservatism, it will be difficult for the Democrats to make difference, and another predominant party system is likely to continue.